

Message Text

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PAGE 01 JAKART 06626 01 OF 02 021007Z

17

ACTION EB-07

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COME-00 DODE-00 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04

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R 020907Z JUN 75

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 8480

INFO AMCONSUL MEDAN

AMCONSUL SURABAYA

AMEMBASSY TOKYO

AMEMBASSY LONDON

AMCONSUL HONG KONG

AMEMBASSY SINGAPORE

LIMITED OFFICIAL USE SECTION 1 OF 2 JAKARTA 6626

HONG KONG FOR TREASURY ATTACHE

EO 11652: N/A

TAGS: EFIN ID

SUBJ: PERTAMINA REFINANCING AND RELATED DEVELOPMENTS

REF: A. THE HAGUE 2437 B. JAKARTA 4325 AND PREVIOUS

C. JAKARTA 6408 D. JAKARTA 6573

1. SUMMARY: CURRENT INFORMATION INDICATES FOREIGN EXCHANGE
PAYMENTS RELATED TO PERTAMINA PROJECTS COULD TOTAL AS MUCH AS
1.5 BILLION DURING GOI FY 1975-76. FOREIGN REFINANCING OF
THESE PAYMENTS IS ESTIMATED AT ROUGHLY 1.0 BILLION, LEAVING
UP TO \$500 MILLION UNCOVERED. DUE TO REDUCED OIL PRODUCTION,
INDONESIA'S OWN PROJECTED FOREIGN EXCHANGE EARNINGS AND
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PAGE 02 JAKART 06626 01 OF 02 021007Z

RESERVES PROBABLY NOT ADEQUATE MEET THIS NEED UNLESS GOI

ADJUSTS OTHER FACTORS AFFECTING NET FOREIGN EXCHANGE POSITION. LATERNATIVE COURSE OF ACTION AVAILABLE TO GOI INCLUDE (1) INCREASING OIL PRDUCTION BY IMPROVING PRICE COMPETITIVENESS OF INDONESIAN CRUDE; (2) INCREASING INDONESIAN PROFIT TAKE FROM EXISTING PRODUCTION; (3) REDUCING FERTILIZER IMPORTS FROM THEIR UNNECESSARILY HIGH CURRENT LEVEL; (4) INCREASED BUDGETARY SAVINGS; AND (5) DELAY OF SOME CAPITAL INTENSIVE INVESTMENTS. GOI NOW MOST ACTIVELY EXPLORING LAST THREE OF THESE. END SUMMARY

2. PROJECTED PAYMENTS: REF A REPORTED MID MAY GOI ESTIMATE OF \$1 BILLION IN PAYMENTS DUE NEXT 12 MONTHS ON PERTAMINA BORROWING AND RELATED PROJECTS--IE AFTER CENTRAL BANK PAYMENT DURING EARLY MONTHS OF 1975 OF \$450 MILLION IN OTHER SHORT TERM PERTAMINA DEBT. HOWEVER AS REF A NOTED, THESE ESTIMATES EXCLUDE REPEAT EXCLUDE (A) POSSIBLE REDUCTION OF PROJECTED PAYMENTS DUE RENEGOTIATED SOME OUTSTANDING L/C'S AND (B) POSSIBLE ADDITIONAL PAYMENT OBLIGATIONS AGAINST ON GOING OUTLAYS UNDER EXISTING CONTRACTS. AN ADVISER CLOSE TO GOI FINANCIAL MINISTRIES ESTIMATES WHEN THESE ELEMENTS FULLY INCLUDED TOTAL FOREIGN PAYMENTS DUE ENDING MAY 1976 WILL INCREASE ESTIMATE TO 1.3-1.4 BILLION. ADJUSTED TO GOI FISCAL YEAR 1975/76 (APRIL THROUGH MARCH), PERTAMINA-RELATED PAYMENTS LIKELY TO TOTAL ABOUT \$1.5 BILLION.

3. POTENTIAL FOREIGN FINANCE: RECENT DISCUSSIONS HERE WITH KUHN LOEB(KL) REP INDICATE MORGAN GUARANTY FINANCING PACKAGE NOW BEING PUT TOGETHER WILL TOTAL \$400 MILLION. KL REP INDICATED JAPAENSE LOAN NOW FIRM FOR \$150 MILLION, ON SAME TERMS AS MORGAN GUARANTY PACKAGE. THUS REFINANCING APPARENTLY IN HAND TOTALS 550 MILLION. (SEE REF D). KL REP BELIEVES ADDITIONAL EURODOLLAR BORROWINGS LATER IN YEAR WILL BRING TOTAL TO MAXIMUM OF ONE BILLION DOLLARS. (OTHER OBSERVERS BELIEVE TOTAL COULD MODERATELY EXCEED THIS LIMIT). ANY FINANCING GOI OBTAINS FROM OPEC COUNTRIES WOULD BE IN ADDITIONAL TO THIS, WITH \$200 MILLION A TARGET FIGURE. GIVEN HIGHLY UNCERTAIN AVAILABILITY OPEC FINANCING AT PRESENT TIME, IT PRUDENT TO EXCLUDE THIS FINANCING FROM CURRENT EVALUATION FUTURE LIMITED OFFICIAL USE

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PAGE 03 JAKART 06626 01 OF 02 021007Z

FINANCING AVAILABILITIES. NET EFFECT ABOVE PROJECTION IS TO LEAVE POSSIBILUTY AS MUCH AS \$500 MILLION OF PROJECTED \$1.5 BILLION FY 75/76 PAYMENTS UNCOVERED BY RESTRUCTURING.

4. POTENTIAL INDONEIAN FINANCING: IN EVENT FOREIGN FINANCING NOT ADEQUATE COVER PERTAMINA REFINANCING REQUIREMENTS, THEN INDONESIA OWN FY75/76 FOREIGN EXCHANGE (FX) EARNINGS OR RESERVES MUST COVER REMAINDER. BALANCE OF

PAYMENTS PROJECTIONS PREPARED BY IBRD FOR MAY IGGI MEETING EXCLUDED PERTAMINA'S DEBT AND REFINANCING PROJECTIONS. IBRD ESTIMATE SHOWED FX RESERVE INCREASE OF \$400 MILLION DURING GOI FY 1975/76. HOWEVER, SINCE THESE ESTIMATES PREPARED, OIL PRODUCTION LOWER THAN PROJECTED. (CRUDE PRODUCTION DURING CY 1975 RUNNING AT ANNUAL RATE OF 450 MILLION VERSUS 550 MILLION BARREL ESTIMATE IN IBRD REPORT.) TAKING INTO ACCOUNT PARTIALLY OFFSETTING EFFECT OF CALTEX CONTRACT RENEGOTIATED OF EARLY 1975 (WHICH INCREASED GOI TAKE BY REDUCING CALTEX PER BARREL PROFITS FROM \$2.90 TO 2.40), INDONESIA'S NET FX EARNINGS FROM OIL SECTOR WILL BE ABOUT \$2.42 BILLION VERSUS \$2.07 PROJECTED BY IBRD, IF CURRENT PRODUCTION LEVELS CONTINUE. EFFECT WOULD BE TO CHANGE PROJECTED \$400 MILLION NET INCREASE IN FX RESERVES TO NET \$250 MILLION DECREASE AND (EXCLUDING PERTAMINA SITUATION) CUT PROJECTED NET FX RESERVE POSITION AT END MARCH 1976 TO \$680 MILLION VERSUS \$920 MILLION AT END MARCH 1975. USE OF RESERVES TO FINANCE REMAINING PERTAMINA DEBT--POSSIBLY AS MUCH AS \$500 MILLION--COULD REDUCE RESERVES TO LOW LEVELS APPROACHING \$180 MILLION (LESS THAN TWO WEEKS IMPORTS).

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PAGE 01 JAKART 06626 02 OF 02 021018Z

12

ACTION EB-07

INFO OCT-01 EUR-12 EA-06 ISO-00 AGR-05 CEA-01 CIAE-00

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FM AMEMBASSY JAKARTA

T RUEHC/SECSTATE WASHDC 8481

INFO AMCONSUL MEDAN

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LIMITED OFFICIAL USE SECTION 2 OF 2 JAARTA 6626

5. FORTUNATLY FIVE MAIN ALTERNATIVE COURSES OF ACTION ARE POTENTIALLY AVAILABLE TO DEAL WITH THIS SITUATION:

A. IMPROVED PRICE COMPETITIVENESS: GOI ARGUES WORLD ECONOMIC SLOWDOWN IF PRIMARY CAUSE ITS REDUCED LEVEL OIL PRODUCTION. OTHER OBSERVES BELIEVE CURRENT INDONESIAN PRICE OF \$12.60 BARREL VALUES LOW SULFUR AND TRANSPORT PREMIA DIFFERENTIALS AT HIGH LEVELS THAT ARE NO LONGER COMPETITIVE. RECENT DECLINE IN INDONESIAN SHARE OF JAPANESE MARKET INDICATES PRICE COMPETITIVENESS IS SIGNIFICANT FACTOR. IMPROVED POSITION COULD BE ACHIEVED EITHER BY REDUCTION IN INDONESIAN CRUDE PRICES OR BY INCREASE IN ALL OTHER CRUDE PRICES. EG, SIZABLE (\$1.60) REDUCTION IN INDONESIAN CRUDE PRICES TO \$11 BARREL, IF PERMITTING ATTAINMENT FULL LIMITED OFFICIAL USE

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PAGE 02 JAKART 06626 02 OF 02 021018Z

PRODUCTION BY JUNE 30 WOULD INCREASE INDONESIAN FY 1975/76 NET OIL EARNINGS BY ONLY \$50 MILLION. ALTERNATIVELY IF BY SEPT 30 OTHER OIL PRODUCERS INCREASE THEIR PRICES SUFFICIENTLY TO ENABLE INDONESIA TO ATTAIN FULL PRODUCTION AT OR ABOVE EXISTING PRICE OF \$12.60 BARREL NET OIL EARNINGS FOR FY 1975/76 WOULD INCREASE \$160 MILLION OR MORE.

B. INCREASED PROFIT TAKE. PROFITS OF FOREIGN COMPANIES OPERATING UNDER CONTRACTS OF WORK AVERAGE ABOUT \$2.40 BARREL CURRENTLY. PRODUCTION SHARING CONTRACTORS AVERAGE ABOUT \$1.55 BARREL.(LOWER PROFIT IS DUE TO A 40 PERCENT OF GROSS EARNINGS ACCELERATED COST WRITE OFF FOR PRODUCTION SHARING CONTRACTOS. ACTUAL COSTS FOR OLDER PRODUCING FIELDS UNDER CONTRACTS OF WORK AVERAGE ABOUT 0.25 BARREL). THE GOI ARGUES THAT HIGH PROFITS AND RAPID COST WRITE OFF ARE NECESSARY TO ATTRACT INCREASING OIL PRODUCTION INVESTMENTS. ALTHOUGH THIS ARGUEMENT MAY HAVE VALIDITY FOR THE NEWER PRODUCERS UNDER PRODUCTION HSARING CONTRACTS, IT SEEMS INAPPROPRIATE FOR CONTRACTOS OF WORK ON OLDER FIELDS. IF GOI WERE TO RENEGOTIATE BY JUNE 30 EXISTING CONTRACTS OF WORK, REDUCTION OF PER BARREL COMPANY PROFITS, TO \$0.50-\$1 WOULD INCREASE GOI NET EARNINGS FROM OIL BY 110-225 MILLION DURING 1975/76.

C. REDUCED FERTILIZER IMPORTS. SEVERAL HUNDRED

MILLION DOLLARS OF FERTILIZER IMPORTS ARE PROGRAMMED FOR 1975/76 IN ADDITION THOSE ALREADY CONTRACTED FOR. RECENT ASSESSMENT OF INDONESIAN FERTILIZER SUPPLY/DEMAND SITUATION INDICATES CURRENT STOCKS PLUS ANTICIPATED DOMESTIC PRODUCTION ADEQUATE MEET NEED DURING COMING YEAR. THIS PLUS IMPORTS ALREADY CONTRACTED FOR AND SCHEDULED FOR DELIVERIES NEXT SEVERAL MONTHS WILL RESULT IN STOCKS DOUBLING TO 1.6 MILLION TONS BEFORE END CY 1975. STORAGE FACILITIES INADEQUATE AND SIGNIFICANT DETERIORATION IN FERTILIZER STOCKS LIKELY. CLEAR POSSIBILITY OF REDUCING PLANNED FOREIGN EXCHANGE EXPENDITURES EXISTS. GOI HAS ALREADY CANCELLED IMPORT AUTHORIZATIONS WHICH HAS RESULTED IN ATTEMPTED CANCELLATION OF SUPPLY CONTRACTS-- BUT BROKERS AND SUPPLIERS ARE SEEKING LIMITED OFFICIAL USE

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PAGE 03 JAKARTA 06626 02 OF 02 021018Z

CONTINUATION OF CONTRACTS.

D. BUDGETARY SAVINGS. AS DISCUSSED IN DETAIL IN IMF REPORT, CONSIDERABLE SCOPE EXISTS FOR INCREASING DOMESTIC TAX REVENUES. IN ADDITION, BASED ON PRELIMINARY REVIEWS OF 1975/76 BUDGET, GOI KEY ADVISOR IS RECOMMENDING THAT BAPPENAS TRIM 10 PERCENT OF LOW PRIORITY, HIGH IMPORT CONTENT PROGRAMS FROM \$5 BILLION PLANNED GOI FY 1975/76 BUDGETARY OUTLAYS, WITH POTENTIAL OF SEVERAL HUNDRED MILLION DOLLARS IN FX SAVINGS.

E. POSTPONEMENT OF CAPITAL INTENSIVE INVESTMENTS. IF IMPACT OF ANY COMBINATION OF OTHER ALTERNATIVES DOES NOT ENABLE MAINTAINANCE ADEQUATE FOREIGN EXCHANGE RESERVES WHILE PERTAMINA DEBT BEING PAID OFF, GOI MAY CHOOSE TO DELAY OR SCALE DOWN SOME PLANNED INVESTMENTS WITH HIGH IMPORT COMPONENT WHICH CANNOT OTHERWISE OBTAIN OFFSHORE FINANCING. COMMITTEES NOW REVIEWING THESE PROJECTS, (REF C) AND REPORTEDLY SEEK TO TRIM EXPENDITURE SCALE EVEN ON PROJECTS WHICH CONTINUE ON SCHEDULE. DIFFICULTIES IN RAISING FINANCE MAY PROVIDE SOME UNPLANNED DELAYS.

6. OUR INFORMATION INDICATES THAT GOI NOW ACTIVELY CARRYING OUT REDUCTIONS IN FERTILIZER IMPORTS, AND CONSIDERING REDUCTIONS IN BUDGETARY AND CAPITAL PROJECTS OUTLAYS. SCOPE FOR REDUCTIONS THESE AND OTHER AREAS APPEARS ADEQUATE TO PERMIT GOI TO PROTECT FX RESERVE LEVEL AT AROUND \$600-800 MILLION RANGE IF REPAYMENTS BORROWINGS AND EXPORT EARNINGS RUN AS PROJECTED PARAS 2 AND 3 ABOVE. TOUSSAINT

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